

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF MORENCI	County LENAWEE
Audit Date 6/30/04	Opinion Date 12/22/04	Date Accountant Report Submitted to State: 1/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

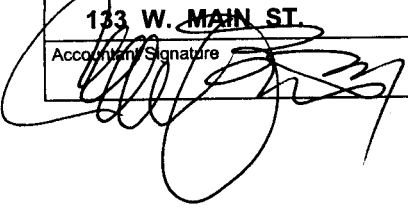
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☒ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) PHILIP R. RUBLEY, CPA			
Street Address 133 W. MAIN ST.	City MORENCI	State MI	ZIP 49256
Accountant's Signature 			Date 12/22/04

CITY OF MORENCI
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2004

**CITY OF MORENCI
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004**

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CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2004

Using This Annual Report

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of City of Morenci, Michigan government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Overview Of The Financial Statements

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Fire Savings, Morenci Area EMS, Major Street, Local Street and Capital Projects each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2004

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and community development. The business-type activities of the City include water and waste water activities reflected in the utilities fund.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority - the Local Development Finance Authority - for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Other Information

The City has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2004

The City As A Whole

The City's net assets for the year ended June 30, 2004 increased by 1.06% over the prior year. Management feels that because the economic conditions have been slightly depressed, that the City will need to be extremely cautious in 2005.

The governmental activities reflect net assets of \$2,889,357 and the business-type (utilities) of \$3,438,920.

By far the largest portion of the City's net assets (81 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2004

CITY OF MORENCI, MICHIGAN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2004</u>	<u>2004</u>	<u>2004</u>
<u>Revenue</u>			
Program Revenue:			
Charges for Services	\$ 458,281	\$ 519,473	\$ 977,754
Operating Grants and Contributions	229,296	---	229,296
Capital Grants and Contributions	37,213	---	37,213
General Revenue:			
Property Taxes	682,360	---	682,360
Grants and Contributions Not Restricted To Specific Program	293,379	---	293,379
Other	38,220	5,597	43,817
Total Revenue	<u>1,738,749</u>	<u>525,070</u>	<u>2,263,819</u>
<u>Expenses</u>			
General Government	320,795	---	320,795
Public Safety	787,233	---	787,233
Public Works	392,239	---	392,239
Community and Economic Development	13,647	---	13,647
Recreation and Culture	116,358	---	116,358
Interest on Long-Term Debt	69,733	---	69,733
Utilities Expenses	---	485,147	485,147
Total Expenses	<u>1,700,005</u>	<u>485,147</u>	<u>2,185,152</u>
Increase (Decrease) In Net Assets Before Transfers	<u>38,744</u>	<u>39,923</u>	<u>78,667</u>
Transfers In (Out)	<u>9,050</u>	<u>(9,050)</u>	<u>---</u>
Increase (Decrease) In Net Assets	<u>47,794</u>	<u>30,873</u>	<u>78,667</u>
Net Assets Beginning of Year	<u>4,450,891</u>	<u>3,408,047</u>	<u>7,858,938</u>
Net Assets End of Year	<u>\$4,498,685</u>	<u>\$3,438,920</u>	<u>\$7,937,605</u>

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2004

CITY OF MORENCI, MICHIGAN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2004</u>	<u>2004</u>	<u>2004</u>
Current and Other Assets	\$ 747,642	\$ 645,873	\$ 1,393,515
Capital Assets	<u>3,967,557</u>	<u>4,763,709</u>	<u>8,731,266</u>
Total Assets	<u>4,715,199</u>	<u>5,409,582</u>	<u>10,124,781</u>
Long-Term Liabilities Outstanding	1,631,539	1,950,000	3,581,539
Other Liabilities	<u>194,303</u>	<u>20,662</u>	<u>214,965</u>
Total Liabilities	<u>1,825,842</u>	<u>1,970,662</u>	<u>3,796,504</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	2,336,018	2,813,709	5,149,727
Restricted	4,149	254,517	258,866
Unrestricted	<u>549,190</u>	<u>370,694</u>	<u>919,884</u>
Total Net Assets	<u>\$2,889,357</u>	<u>\$3,438,920</u>	<u>\$ 6,328,477</u>

Government Activities

Government activities increased the City's net assets by \$47,794.

Business-Type Activities

Business-type activities decreased the City's net assets by \$30,873.

The City's Funds

Our analysis of the City's funds begins on Page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2004

General Fund Budgetary Highlights

Differences between the original budget and amended budget were minor. Expenses between original budget and amended budget were also relatively minor.

Capital Assets And Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$3,967,557 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current year was 20.06% a significant increase.

Long-term debt of the City decreased by \$266,137 (see Note 8 of the basic financial statements).

Economic Factors And Next Year's Budget And Rates

The City's budget for 2004-2005 fiscal year has taken inconsideration, the economic condition of the State of Michigan anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses. The City needs to increase its general fund net expendable assets.

Contacting The City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 118 Orchard St., Morenci, Michigan 49256.

PHILIP R. RUBLEY

- Certified Public Accountant -

133 W. MAIN STREET • MORENCI, MI 49256

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FAX 517/458-6353

PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'s
& THE MICHIGAN ASSOCIATION OF C.P.A.'s

December 22, 2004

Honorable Mayor and Members
Of The City Council
City of Morenci
Morenci, Michigan 49256

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morenci, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morenci, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morenci, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the City's has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as of July 1, 2003.

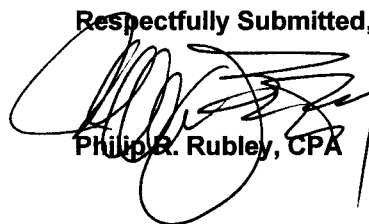
The management's discussion and analysis and budgetary comparison information on pages 1 through 6, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morenci, Michigan basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

City of Morenci
December 22, 2004

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Philip R. Rubley', is written over the printed name.

Philip R. Rubley, CPA

PRR/cab

CITY OF MORENCI, MICHIGAN
Government-wide Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and Equivalents	\$ 439,861	\$ 17,737	\$ 511,598
Investments	1,000	234,939	235,939
Receivables - Net	238,869	85,873	324,742
Inventory	4,246	3,050	7,296
Prepaid Items and Other Assets	32,256	27,167	59,423
Internal Balances	(22,590)	22,590	---
Restricted Cash	---	254,517	254,517
Capital Assets Not Being Depreciated	750,967	77,442	828,409
Capital Assets Being Depreciated - Net	<u>3,216,590</u>	<u>4,686,267</u>	<u>7,902,857</u>
Total Assets	<u>4,715,199</u>	<u>5,409,582</u>	<u>10,124,781</u>
<u>Liabilities</u>			
Accounts Payable and Accrued Expenses	194,303	20,662	214,965
Long-Term Liabilities:			
Due Within One Year	79,287	240,000	319,287
Due In More Than One Year	<u>1,552,252</u>	<u>1,710,000</u>	<u>3,262,252</u>
Total Liabilities	<u>1,825,842</u>	<u>1,970,662</u>	<u>3,796,504</u>
<u>Net Assets</u>			
Invested In Capital Assets, Net of Related Debt	2,336,018	2,813,709	5,149,727
Debt Service	4,149	---	4,149
Replacement	---	254,517	254,517
Unrestricted	<u>549,190</u>	<u>370,694</u>	<u>919,884</u>
Total Net Assets	<u>\$2,889,357</u>	<u>\$3,438,920</u>	<u>\$ 6,328,277</u>

CITY OF MORENCI, MICHIGAN
Government-wide Statement of Activities
For The Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
Primary Government					
<u>Governmental Activities:</u>					
General Government	\$ 320,795	\$ 63,845	\$ 135	\$ 4,832	\$ (251,983)
Public Safety	787,233	329,683	25,000	32,381	(400,169)
Public Works	392,239	58,686	204,161	---	(129,392)
Community and Economic Development	13,647	---	---	---	(13,647)
Recreation and Culture	116,358	6,067	---	---	(110,291)
Interest on Long-Term Debt	69,733	---	---	---	(69,733)
Total Governmental Activities	<u>1,700,005</u>	<u>458,281</u>	<u>229,296</u>	<u>37,213</u>	<u>(975,215)</u>
<u>Business-Type Activities:</u>					
Utilities	<u>485,147</u>	<u>519,473</u>	<u>---</u>	<u>---</u>	<u>34,326</u>
Total Business-Type Activities	<u>485,147</u>	<u>519,473</u>	<u>---</u>	<u>---</u>	<u>34,326</u>
Total Primary Government	<u>\$2,185,152</u>	<u>\$ 977,754</u>	<u>\$229,296</u>	<u>\$ 37,213</u>	<u>\$ (940,889)</u>

CITY OF MORENCI, MICHIGAN
Government-wide Statement Of Activities (Concluded)
For The Year Ended June 30, 2004

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Changes In Net Assets</u>			
Net (Expense) Revenue	\$ (975,215)	\$ 34,326	\$ (940,889)
General Revenues:			
Property Taxes	682,360	---	682,360
Grants and Contributions			
Not Restricted To			
Specific Programs	293,379	---	293,379
Transfers - Internal			
Activities	9,050	(9,050)	---
Unrestricted Investment			
Earnings and Rentals	<u>38,220</u>	<u>5,597</u>	<u>43,817</u>
Total General Revenues, Contributions and Transfers	<u>1,023,009</u>	<u>(3,453)</u>	<u>1,019,556</u>
Change In Net Assets	47,794	30,873	78,667
Net Assets, Beginning of Year	<u>4,450,891</u>	<u>3,408,047</u>	<u>7,858,938</u>
Net Assets, End of Year	<u>\$ 4,498,685</u>	<u>\$3,438,920</u>	<u>\$7,937,605</u>

CITY OF MORENCI, MICHIGAN
Governmental Funds
Balance Sheet
June 30, 2004

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ ---	\$ 42,982	\$ 8,928
Investments	---	---	---
Prepaid Expenses	20,191	---	---
Receivables - Net	171,312	22,027	7,855
Due from Other Funds	307	---	39,991
Inventories	564	---	---
Land	---	---	---
Total Assets	<u>\$192,374</u>	<u>\$ 65,009</u>	<u>\$ 56,774</u>
<u>LIABILITIES</u>			
Accounts Payable/Accrued Liabilities	\$157,173	\$ 4,417	\$ 2,906
Due to Other Funds	<u>72,182</u>	<u>33</u>	<u>---</u>
Total Liabilities	<u>229,355</u>	<u>4,450</u>	<u>2,906</u>
<u>FUND BALANCES</u>			
Unreserved	<u>(36,981)</u>	<u>60,559</u>	<u>53,868</u>
Total Fund Balances	<u>(36,981)</u>	<u>60,559</u>	<u>53,868</u>
Total Liabilities and Fund Balances	<u>\$192,374</u>	<u>\$ 65,009</u>	<u>\$ 56,774</u>

The notes to financial statements are an integral part of this statement.

<u>Capital Projects Fund</u>	<u>Fire Savings Fund</u>	<u>Morenci Area EMS</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ ---	\$112,720	\$44,436	\$56,016	\$265,082
---	---	---	1,000	1,000
---	---	799	---	20,990
---	176	30,547	2	231,919
---	32,044	117	63	72,522
---	---	---	---	564
---	---	---	11,266	11,266
<u>\$ ---</u>	<u>\$144,940</u>	<u>\$75,899</u>	<u>\$68,347</u>	<u>\$603,343</u>
 \$ ---	 \$ ---	 \$ 8,846	 \$ 374	 \$173,716
---	---	---	---	72,215
---	---	8,846	374	245,931
---	144,940	67,053	67,973	357,412
---	144,940	67,053	67,973	357,412
<u>\$ ---</u>	<u>\$144,940</u>	<u>\$75,899</u>	<u>\$68,347</u>	<u>\$603,343</u>

CITY OF MORENCI, MICHIGAN
Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement of Net Assets
June 30, 2004

Fund Balances – Total Governmental Funds

\$ 357,412

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add:	Capital Assets	5,631,133
-------------	----------------	-----------

Deduct:	Accumulated Depreciation	(1,663,576)
----------------	--------------------------	-------------

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add:	Net assets of governmental activities accounted for in the internal service fund.	214,430
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Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct:	Bonds and notes payable	(1,631,539)
----------------	-------------------------	-------------

Deduct:	Accrued interest on bonds	(15,013)
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Deduct:	Accrued interest on note	(3,490)
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Net Assets of Governmental Activities

\$ 2,889,357

CITY OF MORENCI, MICHIGAN
Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
For The Year Ended June 30, 2004

	General Fund	Major Street Fund	Local Street Fund
<u>REVENUES</u>			
Taxes and Assessments	\$ 531,930	\$ ---	\$ ---
Intergovernmental	293,379	150,556	53,605
Grants	25,135	---	---
Licenses and Permits	11,763	---	---
Fines and Forfeitures	5,944	---	---
Charges for Services	132,931	---	---
Interest and Rentals	34,805	176	51
Contributions	577	---	---
Other	58,837	---	---
Total Revenue	<u>1,095,301</u>	<u>150,732</u>	<u>53,656</u>
<u>EXPENDITURES</u>			
Current:			
General Government	300,478	---	---
Public Safety	474,163	---	---
Public Works	112,600	110,708	53,687
Community Economic Development	3,333	---	---
Recreation and Culture	107,376	---	---
Capital Outlay	47,022	6,000	---
Debt Service:			
Principal Payments	---	---	---
Interest Payments	---	---	---
Other Functions	10,512	---	---
Total Expenditures	<u>1,055,484</u>	<u>116,708</u>	<u>53,687</u>
Excess of Revenue Over (Under) Expenditures	39,817	34,024	(31)
Other Financing Sources (Uses)			
Transfers In	10,888	106	40,024
Transfers (Out)	(121,731)	---	---
Total Other Financing Sources (Uses)	<u>(110,843)</u>	<u>106</u>	<u>40,024</u>
Net Change In Fund Balances	(71,026)	34,130	39,993
Fund Balances – Beginning of Year	<u>34,045</u>	<u>26,429</u>	<u>13,875</u>
Fund Balances – End of Year (Deficit)	<u>\$ (36,981)</u>	<u>\$ 60,559</u>	<u>\$53,868</u>

The notes to financial statements are an integral part of this statement.

<u>Capital Projects Fund</u>	<u>Fire Savings Fund</u>	<u>Morenci Area EMS</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 33,020	\$ ---	\$116,830	\$ 580	\$ 682,360
---	---	---	---	497,540
---	---	---	---	25,135
---	---	---	---	11,763
---	---	---	---	5,944
---	1,423	167,096	58,676	360,126
1,777	770	334	307	38,220
---	---	30,349	6,287	37,213
---	3,000	---	18,611	80,448
<u>34,797</u>	<u>5,193</u>	<u>314,609</u>	<u>84,461</u>	<u>1,738,749</u>
---	---	---	---	300,478
---	---	236,301	9,551	720,015
---	---	---	51,554	328,549
---	---	---	10,314	13,647
---	---	---	---	107,376
1,070,876	---	---	6,703	1,130,601
---	---	---	124,761	124,761
---	---	---	51,230	51,230
---	---	---	---	10,512
<u>1,070,876</u>	<u>---</u>	<u>236,301</u>	<u>254,113</u>	<u>2,787,169</u>
(1,036,078)	5,193	78,308	(169,652)	(1,048,420)
---	---	---	175,991	227,009
(65,360)	---	(30,868)	---	(217,959)
(65,360)	---	(30,868)	175,991	9,050
(1,101,439)	5,193	47,440	6,339	(1,039,370)
<u>1,101,439</u>	<u>139,747</u>	<u>19,613</u>	<u>61,634</u>	<u>1,396,782</u>
<u>\$ ---</u>	<u>\$144,940</u>	<u>\$ 67,053</u>	<u>\$ 67,973</u>	<u>\$ 357,412</u>

CITY OF MORENCI, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures,
And Changes In Fund Balances Of Governmental Statement Of Activities
June 30, 2004

Net Change In Fund Balances – Total Governmental Funds

\$(1,039,370)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital Outlay

1,129,328

Deduct: Depreciation Expense

(148,422)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increase long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: Principal payments on long-term liabilities

124,761

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: Increase in interest payable on bonds and notes

(18,503)

Change In Net Assets Of Governmental Activities

\$ 47,794

CITY OF MORENCI, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 17,737	\$228,779
Investments	234,939	---
Due to Other Funds	33,000	---
Accounts Receivable	85,669	6,842
Interest Receivable	204	108
Inventory	3,050	---
Prepaid Expense	27,167	3,682
Noncurrent Assets:		
Restricted Cash	254,517	---
Property and Equipment - Net	4,763,709	77,252
Total Noncurrent Assets	5,018,226	77,252
Total Assets	<u>\$5,419,992</u>	<u>\$316,663</u>
Liabilities		
Current Liabilities:		
Due to Other Funds	\$ 33,307	\$ ---
Accounts Payable and Accrued Liabilities/Deposits	17,456	2,084
Accrued Equipment Rent	3,206	---
Bonds Payable, Current Portion	240,000	---
Total Current Liabilities	293,969	2,084
Noncurrent Liabilities:		
Bonds Payable	1,710,000	---
Total Noncurrent Liabilities	1,710,000	---
Total Liabilities	<u>2,003,969</u>	<u>2,084</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,813,709	77,252
Restricted for Replacement	254,517	---
Unrestricted	347,797	237,327
Total Net Assets	3,416,023	<u>\$314,579</u>
Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds	22,897	
Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets	<u>\$3,438,920</u>	

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended June 30, 2004

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Charges for Services	\$ 519,232	\$115,924
Liabilities		
Salaries and Wages	105,274	27,436
Fringe Benefits	58,372	15,295
Office Expenses	8,819	1,303
Supplies and Materials	52,827	42,798
Utilities	25,393	---
Depreciation	165,888	18,689
Other Expenses	189	5,952
Total Operating Expenses	<u>416,762</u>	<u>111,473</u>
Operating Income (Loss)	<u>102,470</u>	<u>4,451</u>
Non-Operating Revenues (Expenses)		
Investment Income	5,597	974
Interest Expense	(68,385)	---
Other - Miscellaneous	241	---
Total Non-Operating Revenues (Expenses)	<u>(62,547)</u>	<u>974</u>
Other Financing Sources		
Transfer (out)	(9,232)	---
Transfer In	182	---
Total Other Financing Sources	<u>(9,050)</u>	<u>---</u>
Income (Loss) Before Transfers	30,873	5,425
Net Assets, Beginning of Year	<u>3,385,150</u>	<u>309,154</u>
Net Assets, End of Year	<u>\$3,416,023</u>	<u>\$314,579</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures, To The Statement Of Activities
June 30, 2004

Change In Net Assets – All Enterprise Funds	\$30,873
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An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

<u>22,897</u>

Change In Net Assets Of Business-Type Activities

<u>\$53,770</u>

CITY OF MORENCI, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Cash Flows From Operating Activities		
Cash Received from Customers/Assessments	\$ 527,362	\$ ---
Cash Received Miscellaneous	---	109,082
Cash Payment to Suppliers For Goods and Services/Employees	<u>(301,934)</u>	<u>(78,426)</u>
Net Cash Provided (Used)	<u>225,428</u>	<u>30,656</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of Capital Assets	(138,042)	(1,200)
Bond Principal Payments	(215,000)	---
Bond Interest Payments	71,767	---
Bond Proceeds	<u>30,000</u>	<u>---</u>
Net Cash (Used) by Capital and Related Financing Activities)	<u>(251,275)</u>	<u>(1,200)</u>
Cash Flows From Investing Activities		
Investment Income	<u>5,866</u>	<u>974</u>
Net Cash Provided (Used) by Investing Activities	<u>5,866</u>	<u>974</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(19,981)	30,430
Cash and Cash Equivalents, Beginning of Year	<u>292,235</u>	<u>198,347</u>
Cash and Cash Equivalents, End of Year	<u>\$ 272,254</u>	<u>\$228,777</u>
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	\$ 17,737	\$228,777
Restricted Cash and Cash Equivalents	<u>254,517</u>	<u>---</u>
	<u>\$ 272,254</u>	<u>\$228,777</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 30,873	\$ 5,424
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	165,888	18,689
Changes in Assets and Liabilities:		
Accounts Receivable/Investments/Interest	158,272	8,195
Accounts Payable, Accrued		
Liabilities, Bonds Current Portion	(15,210)	505
Other Assets	<u>(21,762)</u>	<u>(1,183)</u>
Net Cash Provided (Used) by Operating Activities	<u>318,061</u>	<u>31,630</u>
Cash Flows from Capital Activities:		
Acquisition of Capital Assets	<u>(138,042)</u>	<u>(1,200)</u>
Net Cash (Used) from Capital Activities	<u>(138,042)</u>	<u>(1,200)</u>
Cash Flows From Financing Activities:		
Principal Paid on Bonds	<u>(200,000)</u>	<u>---</u>
Net Cash (Used) from Financing Activities	<u>(200,000)</u>	<u>---</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(19,981)	30,430
Cash and Cash Equivalents, Beginning of Year	<u>292,235</u>	<u>198,347</u>
Cash and Cash Equivalents, End of Year	<u>\$ 272,254</u>	<u>\$228,777</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Morenci, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

City of Morenci, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

The financial statement of the City does not include the Morenci Stair Library which is under separate audit.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Savings Fund is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing equipment purchases for public safety.

The Morenci Area EMS Fund is a Special Revenue Fund that receives monies from contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community and surrounding townships.

The Major Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The Local Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The Capital Projects Fund is a fund which accounts for revenue and expenditures of major capital outlay - construction.

The government reports the following major proprietary funds:

The Water and Sewer Fund combined as the Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

Additionally, the government reports the following fund types:

The Agency Funds account for assets held by the City acting as an agent for individuals, private organizations, other governments and/or other funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets or Equity

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

4. **Inventories** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

5. **Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

6. **Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. **Compensated Absences** – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.

Obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. **Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. **Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Mayor presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

- B. **Excess of Expenditures Over Appropriations in Budgeted Funds** - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2004, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
Council and General	\$ 42,447	\$ 80,921	\$ (38,474)
Cemetery	59,768	63,824	(4,056)
Building and Grounds	67,223	74,465	(7,232)
Clerk	48,064	50,347	(2,283)
Elections	2,208	2,394	(186)
Public Works:			
Sanitation	67,986	87,746	(19,760)
Recreation and Culture:			
Parks	38,631	43,929	(5,298)
Morenci Area EMS - Major Fund:			
Transfers Out to Other Funds	---	30,868	(30,868)
Capital Projects - Major Fund:			
Public Works	1,037,879	1,070,876	(32,997)

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

NOTE 3 – DEPOSITS AND INVESTMENTS

The government unit's deposits and investment policy are in accordance with statutory authority.

Investments made by the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1: Insured or registered, or securities held by the City or its agent in the City's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<u>Category 1</u>	<u>2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Market Value</u>
Other Investments	\$ ---	\$ 8,536	\$ ---	\$ 8,536	\$ 8,536
Checking and Savings Accounts, Etc.	100,000	657,579	\$ ---	757,579	757,579
Investments - Certificates of Deposits	<u>100,000</u>	<u>135,939</u>	<u>---</u>	<u>235,939</u>	<u>235,939</u>
	<u>\$200,000</u>	<u>\$802,054</u>	<u>\$ ---</u>	<u>\$1,002,054</u>	<u>\$1,002,054</u>

Balance Sheet Cash And Cash Investments

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the City's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured (FDIC) (FSLIC)	\$ 200,000
Uninsured:	
Uncollateralized	<u>802,054</u>
Total	<u>\$1,002,054</u>

Total cash consist of: Cash and cash investments of \$747,537 and restricted cash of \$254,517.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 765,079	\$ 4,750	\$18,862	\$ 750,967
	<u>765,079</u>	<u>4,750</u>	<u>18,862</u>	<u>750,967</u>
Capital Assets, Being Depreciated:				
Buildings	861,818	21,322	---	883,140
Vehicles	1,115,890	---	---	1,115,890
Equipment	697,409	13,302	---	710,711
Infrastructure	<u>1,080,471</u>	<u>1,089,954</u>	<u>---</u>	<u>2,170,425</u>
Total Capital Assets Being Depreciated	<u>3,755,588</u>	<u>1,124,578</u>	<u>---</u>	<u>4,880,166</u>
Less Accumulated Depreciation For:				
Buildings	(325,113)	(19,920)	---	(345,033)
Vehicles	(478,673)	(59,707)	---	(538,380)
Equipment	(482,793)	(27,468)	---	(510,261)
Infrastructure	<u>(228,575)</u>	<u>(41,327)</u>	<u>---</u>	<u>(269,902)</u>
Total Accumulated Depreciation	<u>(1,515,154)</u>	<u>(148,422)</u>	<u>---</u>	<u>(1,663,576)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,240,434</u>	<u>976,156</u>	<u>---</u>	<u>3,216,590</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,005,513</u>	<u>\$ 980,906</u>	<u>\$18,862</u>	<u>\$ 3,967,557</u>
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 77,442	\$ ---	\$ ---	\$ 77,442
	<u>77,442</u>	<u>---</u>	<u>---</u>	<u>77,442</u>
Capital Assets, Being Depreciated:				
Buildings, Systems & Equipment	<u>7,463,141</u>	<u>138,042</u>	<u>---</u>	<u>7,601,183</u>
Total Capital Assets Being Depreciated	<u>7,463,141</u>	<u>138,042</u>	<u>---</u>	<u>7,601,183</u>
Less Accumulated Depreciation For:				
Buildings, Systems & Equipment	<u>(2,749,028)</u>	<u>(165,888)</u>	<u>---</u>	<u>(2,914,916)</u>
Total Accumulated Depreciation	<u>(2,749,028)</u>	<u>(165,888)</u>	<u>---</u>	<u>(2,914,916)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,714,113</u>	<u>(27,846)</u>	<u>---</u>	<u>4,686,267</u>
Business Type Activities Capital Assets, Net	<u>\$ 4,791,555</u>	<u>\$ (27,846)</u>	<u>\$ ---</u>	<u>\$ 4,763,709</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General Government	\$ 9,805
Public Safety	67,218
Public Works	43,728
Culture and Recreation	8,982
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>18,689</u>

**Total Depreciation Expense
Governmental Activities**

\$148,422

Business-Type Activities:

Utilities	<u>\$165,888</u>
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**Total Depreciation Expense
Business-Type Activities**

\$165,888

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2004, the following were interfund receivables and payables in the fund statement.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 307	\$ 72,182
Fire Savings	32,044	---
Major Street	---	33
Local Street	39,991	---
Morenci Area EMS	117	---
Water	13,000	20,120
Sewer	20,000	13,187
Debt Service	<u>63</u>	<u>---</u>
	<u>\$105,552</u>	<u>\$105,552</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

NOTE 6 – TRANSFERS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 10,888	\$121,731
Debt Service	175,991	---
Major Street	106	---
Local	40,024	---
Capital Projects	---	65,360
Sewer	182	---
Water	---	9,232
Morenci Area EMS	---	30,868
	<u>\$227,191</u>	<u>\$227,191</u>

NOTE 7 – PROPERTY TAXES:

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31st and are levied on June 1st. Taxes become delinquent on August 31st with a 1% interest charge beginning October 1st. All delinquent taxes are charged with a 4% penalty.

Property taxes attach as an enforceable lien on the property as of January 1.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

NOTE 8 – LONG TERM DEBT

Long-term debt consists of the following:

	<u>Balance</u> <u>July 1,</u> <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2004</u>
Sanitary Sewer Bonds - Series I	\$ 200,000	\$ ---	\$ 50,000	\$ 150,000
Sanitary Sewer Bonds Series II	1,600,000	---	165,000	1,435,000
Notes Payable - Bank - Ambulance	44,379	---	25,092	19,287
Bonds Payable - Water Distribution	335,000	40,000	10,000	365,000
Notes Payable - Industrial - Park - Land	288,297	---	21,045	267,252
Construction Bond - General Obligation	1,380,000	---	35,000	1,345,000
Total	<u>\$3,847,676</u>	<u>\$40,000</u>	<u>\$306,137</u>	<u>\$3,581,539</u>

City of Morenci – Sanitary Sewer System Bonds

Title of Issue: City of Morenci - Series I Sanitary Sewer System Bonds
Purpose: Sanitary Sewer System
Interest Rate: 6.0% - Current
Interest Payable: Semi-Annual on January and July of each year
Amount of Issue: \$900,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2005	\$ 59,000	\$ 9,000	\$ 50,000
2006	56,000	6,000	50,000
2007	<u>53,000</u>	<u>3,000</u>	<u>50,000</u>
	<u>\$168,000</u>	<u>\$18,000</u>	<u>\$150,000</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

City of Morenci – Sanitary Sewer Systems Bonds

Title of Issue: City of Morenci - Series II Sanitary Sewer Systems Bonds
Purpose: Sanitary Sewer System
Interest Rate: 2.0% - Current
Interest Payable: Semi-Annual on October 1, and April 1, of each year
Amount of Issue: \$3,087,009

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2004	\$ 179,350	\$ 14,350	\$ 165,000
April 1, 2005	12,700	12,700	
October 1, 2005	182,700	12,700	170,000
April 1, 2006	11,000	11,000	
October 1, 2006	186,000	11,000	175,000
April 1, 2007	9,250	9,250	
October 1, 2007	189,250	9,250	180,000
April 1, 2008	7,450	7,450	
October 1, 2008	187,450	7,450	180,000
April 1, 2009	5,650	5,650	
October 1, 2009	190,650	5,650	185,000
April 1, 2010	3,800	3,800	
October 1, 2010	193,800	3,800	190,000
April 1, 2011	1,900	1,900	
October 1, 2011	191,900	1,900	190,000
	<u>\$1,552,850</u>	<u>\$117,850</u>	<u>\$1,435,000</u>

City of Morenci – Bank of Lenawee - Equipment

Purpose: Ambulance
Interest Rate: 3.23%
Interest Payable: Semi-Annual on October 1, and April 1, of each year
Amount of Issue: \$3,087,009

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2005	<u>\$19,617</u>	<u>\$330</u>	<u>\$19,287</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

City of Morenci – Revenue Sharing Bonds – Water Distribution

Title of Issue: Refunding of 1992A MBIA Revenue Sharing - Morenci
Purpose: Water Distribution
Date of Issue: May 13, 2004
Maturity Date: November 1, 2016
Interest Rate: 2.0% to 5.0%
Interest Payable: Semi-Annually
Amount of Issue: \$365,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
November 1, 2004	\$ 30,591	\$ 5,591	\$ 25,000
May 1, 2005	5,740	5,740	
November 1, 2005	30,740	5,740	25,000
May 1, 2006	5,490	5,490	
November 1, 2006	30,490	5,490	25,000
May 1, 2007	5,240	5,240	
November 1, 2007	35,240	5,240	30,000
May 1, 2008	4,903	4,903	
November 1, 2008	34,903	4,903	30,000
May 1, 2009	4,490	4,490	
November 1, 2009	24,490	4,490	20,000
May 1, 2010	4,190	4,190	
November 1, 2010	29,190	4,190	25,000
May 1, 2011	3,790	3,790	
November 1, 2011	28,790	3,790	25,000
May 1, 2012	3,353	3,353	
November 1, 2012	33,353	3,353	30,000
May 1, 2013	2,790	2,790	
November 1, 2013	32,790	2,790	30,000
May 1, 2014	2,190	2,190	
November 1, 2014	37,190	2,190	35,000
May 1, 2015	1,490	1,490	
November 1, 2015	31,490	1,490	30,000
May 1, 2016	875	875	
November 1, 2016	35,875	875	35,000
	<u>\$459,673</u>	<u>\$94,673</u>	<u>\$365,000</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

City of Morenci – Industrial Park – Land

Purpose: Industrial Park Development - Land
Interest Rate: 4.74%
Amount of Issue: \$440,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
March 12, 2004	\$ 27,894	\$ 6,348	\$ 21,546
September 12, 2004	27,894	5,837	22,057
March 12, 2005	27,894	5,313	22,581
September 12, 2005	27,894	4,777	23,117
March 12, 2006	27,894	4,227	23,667
September 12, 2006	27,894	3,665	24,229
March 12, 2007	27,894	3,090	24,804
September 12, 2007	27,894	2,500	25,394
March 12, 2008	27,894	1,897	25,997
September 12, 2008	27,894	1,280	26,614
March 12, 2009	27,894	648	27,246
	<u>\$306,834</u>	<u>\$39,582</u>	<u>\$267,252</u>

City of Morenci – General Obligation Bonds

Purpose: Downtown Development - Street Scap
Interest Rate: 4.4%
Amount of Issue: \$1,380,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
April 1, 2004	\$ 65,360	\$ 30,360	\$ 35,000
October 1, 2004	64,590	29,590	35,000
April 1, 2005	63,820	28,820	35,000
October 1, 2005	63,050	28,050	35,000
April 1, 2006	67,280	27,280	40,000
October 1, 2006	66,400	26,400	40,000
April 1, 2007	65,520	25,520	40,000
October 1, 2007	64,640	24,640	40,000
April 1, 2008	63,760	23,760	40,000
October 1, 2008	62,880	22,880	40,000
April 1, 2009	67,000	22,000	45,000
October 1, 2009	66,010	21,010	45,000
April 1, 2010	65,020	20,020	45,000
October 1, 2010	64,030	19,030	45,000
April 1, 2011	63,040	18,040	45,000
October 1, 2011	67,050	17,050	50,000
April 1, 2012	65,950	15,950	50,000
October 1, 2012	64,850	14,850	50,000
April 1, 2013	63,750	13,750	50,000
October 1, 2013	62,650	12,650	50,000
April 1, 2014	66,550	11,550	55,000
October 1, 2014	65,340	10,340	55,000
April 1, 2015	64,130	9,130	55,000
October 1, 2015	62,920	7,920	55,000
April 1, 2016	66,710	6,710	60,000
October 1, 2016	65,390	5,390	60,000
April 1, 2017	64,070	4,070	60,000
October 1, 2017	62,750	2,750	60,000
April 1, 2018	66,430	1,430	65,000
	<u>\$1,880,940</u>	<u>\$500,940</u>	<u>\$1,380,000</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

Maturities of Long-Term Debt

Maturities for the next five years of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2005	\$ 316,163
2006	302,057
2007	272,581
2008	268,117
2009	273,667
There After	<u>2,148,954</u>
	<u>\$3,581,539</u>

NOTE 9 – PENSION PLAN

The City of Morenci has a qualified 401(k) plan, administered by ICMA-RC.

Contributions are made by the City and employees. The Plan is blended between growth funds, cash management and government investments. Contribution by the City for fiscal year 2004 was \$29,809.

NOTE 10 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2004, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2004

NOTE 11 – ACCOUNTING CHANGE

Effective July 1, 2003, the City of Morenci, Michigan implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34), along with all related statements and interpretations. Changes to the City's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis of the City's overall financial position and results of operations has been included.
- City-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets totaling \$3,967,557.
- The Governmental activities column includes bonds and other long-term obligations totaling \$1,631,539.
- The fund financial statements focus on major funds rather than fund types.
- The governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year-end.

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$ 91,000	\$ 91,000	\$ 34,045	\$ (56,955)
Taxes and Assessments	486,861	486,861	531,930	45,069
Intergovernmental	317,993	317,993	293,379	(24,614)
Grants	28,200	28,200	25,135	(3,065)
Licenses and Permits	8,500	8,500	11,763	3,263
Fines and Forfeitures	7,100	7,100	5,944	(1,156)
Charges For Services	116,041	116,041	132,931	16,890
Interest and Rentals	34,002	34,002	34,805	803
Other	207,544	207,544	58,837	(148,707)
Contributions	10,000	10,000	577	(9,423)
Transfers In Other Funds	---	---	10,888	10,888
Amounts Available for Appropriation	<u>1,307,241</u>	<u>1,307,241</u>	<u>1,140,234</u>	<u>(167,007)</u>
<u>Charges to Appropriations (Outflows)</u>				
General Government				
City Council	41,986	42,447	80,921	(38,474)
City Mayor	1,437	1,237	1,227	10
Treasurer	21,957	19,480	17,801	1,679
Assessing	9,830	9,630	9,117	513
Clerk	46,699	48,064	50,347	(2,283)
Elections	3,250	2,208	2,394	(186)
Buildings and Grounds	56,214	67,233	74,465	(7,232)
Board of Review	620	620	382	238
Cemetery	57,159	59,768	63,824	(4,056)
	<u>239,152</u>	<u>250,687</u>	<u>300,478</u>	<u>(49,791)</u>
Public Safety				
Police	356,362	356,362	339,333	17,029
Inspections	16,181	13,421	12,960	461
Fire	88,938	88,938	64,120	24,818
Emergency Medical Services	57,750	57,750	57,750	---
	<u>519,231</u>	<u>516,471</u>	<u>474,163</u>	<u>42,308</u>
Community Economic Development	<u>4,300</u>	<u>3,395</u>	<u>3,333</u>	<u>62</u>
Public Works				
Street and Traffic Lights	30,000	27,000	24,854	2,146
Sanitation	67,532	67,986	87,746	(19,760)
	<u>97,532</u>	<u>94,986</u>	<u>112,600</u>	<u>(17,614)</u>
Recreation and Culture				
Library	64,670	64,670	63,447	1,223
Park	59,677	38,631	43,929	(5,298)
	<u>124,347</u>	<u>103,301</u>	<u>107,376</u>	<u>(4,075)</u>
Capital Outlay	<u>66,470</u>	<u>66,470</u>	<u>47,022</u>	<u>19,448</u>
Other Functions	<u>127,361</u>	<u>149,083</u>	<u>10,512</u>	<u>138,571</u>
Transfers to Other Funds	<u>127,731</u>	<u>121,731</u>	<u>121,731</u>	<u>---</u>
Total Charges to Appropriations	<u>1,306,124</u>	<u>1,306,124</u>	<u>1,177,215</u>	<u>128,909</u>
Ending of Year Fund Balance (Deficit)	<u>\$ 1,117</u>	<u>\$ 1,117</u>	<u>\$ (36,981)</u>	<u>\$ (38,098)</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Fire Savings Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
<u>Resources (Inflows)</u>				
Charge for Services	\$107,000	\$166,392	\$139,747	\$ (26,645)
Sale of Equipment	525	2,500	1,423	(1,077)
Interest Income	---	---	3,000	3,000
Other - Miscellaneous	330	2,722	770	(1,952)
Transfer In from Other Funds	100	100	---	(100)
	<u>35,000</u>	<u>35,000</u>	<u>---</u>	<u>(35,000)</u>
<u>Amounts Available for Appropriation</u>				
	<u>142,995</u>	<u>206,714</u>	<u>144,940</u>	<u>(61,774)</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Safety	<u>138,280</u>	<u>142,995</u>	<u>---</u>	<u>142,995</u>
<u>Total Charges to Appropriations</u>	<u>138,280</u>	<u>142,995</u>	<u>---</u>	<u>142,995</u>
<u>Ending of Year Fund Balance</u>	<u>\$ 4,715</u>	<u>\$ 63,719</u>	<u>\$144,940</u>	<u>\$ 81,221</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Morenci Area EMS Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)				
Assessments	\$ 13,138	\$ 13,138	\$ 19,613	\$ 6,475
Charges for Services	129,355	129,355	116,830	(12,525)
Contributions	154,150	154,150	167,096	12,946
Interest Income	2,000	2,000	30,349	28,349
	<u>57</u>	<u>57</u>	<u>334</u>	<u>277</u>
Amounts Available for Appropriation	<u>298,700</u>	<u>298,700</u>	<u>334,222</u>	<u>35,522</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Safety	287,181	298,700	236,301	62,399
Transfers to Other Funds	<u>---</u>	<u>---</u>	<u>30,868</u>	<u>(30,868)</u>
Total Charges to Appropriations	<u>287,181</u>	<u>298,700</u>	<u>267,169</u>	<u>31,531</u>
Ending of Year Fund Balance	<u>\$ 11,519</u>	<u>\$ ---</u>	<u>\$ 67,053</u>	<u>\$ 67,053</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Major Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)				
Intergovernmental	\$ 26,429	\$ 26,429	\$ 26,429	\$ ---
Interest Income	119,000	119,000	150,556	31,556
Interest Income	150	150	176	26
Transfers from Other Funds	---	---	106	106
Amounts Available for Appropriation	<u>145,579</u>	<u>145,579</u>	<u>177,267</u>	<u>31,688</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	119,774	129,150	116,708	12,442
Transfers to Other Funds	---	---	---	---
Total Charges to Appropriations	<u>119,774</u>	<u>129,150</u>	<u>116,708</u>	<u>12,442</u>
Ending of Year Fund Balance	<u>\$ 25,805</u>	<u>\$ 16,429</u>	<u>\$ 60,559</u>	<u>\$44,130</u>

CITY OF MORENCI, MICHIGAN
 Budgetary Comparison Schedule
 Local Street Fund (Major Capital Project Fund)
 For The Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$29,568	\$29,568	\$ 13,875	\$ (15,693)
Intergovernmental	42,231	42,231	53,605	11,374
Interest Income	375	375	51	(324)
Transfers from Other Funds	---	---	40,024	40,024
Amounts Available for Appropriation	<u>72,174</u>	<u>72,174</u>	<u>107,555</u>	<u>35,381</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	<u>67,257</u>	<u>72,174</u>	<u>53,687</u>	<u>18,487</u>
Total Charges to Appropriations	<u>67,257</u>	<u>72,174</u>	<u>53,687</u>	<u>18,487</u>
Ending of Year Fund Balance	<u>\$ 4,917</u>	<u>\$ ---</u>	<u>\$ 53,868</u>	<u>\$ 53,868</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Capital Projects Fund (Major Capital Project Fund)
For The Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$1,101,439	\$1,101,439	\$1,101,439	\$ ---
Assessments	---	---	33,020	33,020
Interest Income	<u>1,800</u>	<u>1,800</u>	<u>1,777</u>	<u>(23)</u>
Amounts Available for Appropriation	<u>1,103,239</u>	<u>1,103,239</u>	<u>1,136,236</u>	<u>32,997</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	---	1,037,879	1,070,876	(32,997)
Transfers to Other Funds	<u>---</u>	<u>65,360</u>	<u>65,360</u>	<u>---</u>
Total Charges to Appropriations	<u>---</u>	<u>1,103,239</u>	<u>1,136,236</u>	<u>(32,997)</u>
Ending of Year Fund Balance	<u>\$1,103,239</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>

CITY OF MORENCI, MICHIGAN
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004

Special Revenue Funds

	<u>Fire</u>	<u>Police Equipment</u>	<u>Refuse</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$24,257	\$2,323	\$18,564
Receivables:			2
Interest	---	---	---
Due from Other Funds	---	---	---
Investment	---	---	---
Land	---	---	---
Total Assets	<u>\$24,257</u>	<u>\$2,323</u>	<u>\$18,566</u>
 <u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts Payable	\$ ---	\$ ---	\$ ---
Total Liabilities	<u>---</u>	<u>---</u>	<u>---</u>
 <u>Fund Balance</u>	<u>24,257</u>	<u>2,323</u>	<u>18,566</u>
 Total Liabilities And Fund Balances	<u>\$24,257</u>	<u>\$2,323</u>	<u>\$18,566</u>

The notes to financial statements are an integral part of this statement.

	<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Police K-9</u>	<u>Town & Country Festival</u>	<u>Oak Grove Cemetery</u>	<u>EMS Recreation</u>	<u>Debt Service</u>	
\$ 565	\$5,933	\$ ---	\$288	\$4,086	\$56,016
---	---	---	---	---	2
---	---	---	---	63	63
---	---	1,000	---	---	1,000
---	---	<u>11,266</u>	---	---	<u>11,266</u>
<u>\$ 565</u>	<u>\$5,933</u>	<u>\$12,266</u>	<u>\$288</u>	<u>\$4,149</u>	<u>\$68,347</u>
<u>\$ ---</u>	<u>\$ 374</u>	<u>\$ ---</u>	<u>\$---</u>	<u>\$ ---</u>	<u>\$ 374</u>
<u>---</u>	<u>374</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>374</u>
<u>565</u>	<u>5,559</u>	<u>12,266</u>	<u>288</u>	<u>4,149</u>	<u>67,973</u>
<u>\$ 565</u>	<u>\$5,933</u>	<u>\$12,266</u>	<u>\$288</u>	<u>\$4,149</u>	<u>\$68,347</u>

CITY OF MORENCI, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes In Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2004

Special Revenue Funds

	<u>Fire</u>	<u>Police Equipment</u>	<u>Refuse</u>
<u>Revenues:</u>			
Taxes	\$ ---	\$ ---	\$ ---
Contributions	2,032	---	---
Charges for Services	---	1,515	57,161
Interest and Rents	63	---	189
Other Revenue	<u>10,962</u>	<u>---</u>	<u>---</u>
Total Revenue	<u>13,057</u>	<u>1,515</u>	<u>57,350</u>
<u>Expenditures:</u>			
General Government	---	---	---
Public Safety	8,660	50	---
Public Works	---	---	51,554
Recreational and Cultural	---	---	---
Community Economic Development	319	---	---
Capital Outlay	1,542	---	---
Debt Service:			
Principal	---	---	---
Interest	<u>---</u>	<u>---</u>	<u>---</u>
Total Expenditures	<u>10,521</u>	<u>50</u>	<u>51,554</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>2,536</u>	<u>1,465</u>	<u>5,796</u>
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	---	---	---
Operating Transfers (Out)	<u>---</u>	<u>---</u>	<u>---</u>
Total Other Financing Sources (Uses)	<u>---</u>	<u>---</u>	<u>---</u>
<u>Excess of Revenues and Other Sources Over (Under) (Expenditures and Other Uses)</u>	<u>2,536</u>	<u>1,465</u>	<u>5,796</u>
<u>Beginning Fund Balance</u>	<u>21,721</u>	<u>858</u>	<u>12,770</u>
<u>Ending Fund Balance</u>	<u>\$24,257</u>	<u>\$2,323</u>	<u>\$18,566</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>				<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Police K-9</u>	<u>Town & Country Festival</u>	<u>Oak Grove Cemetery</u>	<u>EMS Recreation</u>	<u>Debt Service</u>	
\$ ---	\$ ---	\$ ---	\$ ---	\$ 580	\$ 580
---	4,255	---	---	---	6,287
---	---	---	---	---	58,676
4	23	---	---	28	307
---	6,615	---	1,034	---	18,611
4	10,893	---	1,034	608	84,461
---	---	---	---	---	---
---	---	---	841	---	9,551
---	---	---	---	---	51,554
---	---	---	---	---	---
---	9,995	---	---	---	10,314
---	---	---	---	5,161	6,703
---	---	---	---	124,761	124,761
---	---	---	---	51,230	51,230
---	9,995	---	841	181,152	254,113
4	898	---	193	(180,544)	(169,652)
---	---	---	---	175,991	175,991
---	---	---	---	---	---
---	---	---	---	175,991	175,991
4	898	---	193	(4,553)	6,339
561	4,661	12,266	95	8,702	61,634
\$ 565	\$ 5,559	\$12,266	\$ 288	\$ 4,149	\$ 67,973

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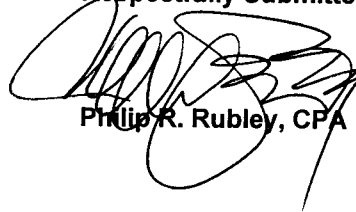
December 22, 2004

Honorable Mayor and Members
Of The City Council
City of Morenci
Morenci, Michigan 49256

In planning and performing my audit of the financial statements of City of Morenci, Michigan for the year ended June 30, 2004, I considered the City's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements. The consideration I gave to the internal control structure was not sufficient for me to provide any form of assurance on it. However, in reviewing the City's processes and systems, I made observations I feel should be communicated to you and I have done so in a separate letter dated December 22, 2004. In addition I have summarized other areas for Council's consideration involving internal controls and fraud considerations.

If you have any questions on the information contained in this letter please contact me.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab

INTERNAL CONTROLS

Over a relatively short period of time, there have been several large fraud related cases documented in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as the council members of these not-for-profit organizations and governmental organizations, concerning their organization's vulnerability to internal or external fraud related activities. It is strongly believed that all organizations, both small and large, have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity.

Through many recent conversations with my clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure, which includes sound accounting and internal control policies and procedures (IN THE EYES OF THEIR EMPLOYEES). One of the key aspects of strong controls, and thus a deterrent, is senior management's support and involvement with accounting and internal control monitoring and related decisions.

Some of the key areas to focus on include, but are not limited to, the following:

- Cash receipts handling and posting to general ledgers including the initial posting of cash receipts.
- Posting of adjusting journal entries to the ledger.
- Cash disbursements, including the establishment of vendor master files in the computer system and maintenance and controls surrounding the signature of cash disbursement checks.
- Payroll, including the access to all master files detailing wage rates and other information, and the establishment of new employees in the computer system.
- Proper approval procedures for all disbursements including a good checks and balances system i.e.: no one person responsible for this function where possible.

FRAUD CONSIDERATIONS

Statement of Auditing Standards No. 99 (SAS99), consideration of Fraud in a Financial Statement Audit

Effective for the year ended December 31, 2003, Statement on Auditing Standards No. 99 (SAS99), *Consideration of Fraud in a Financial Statement Audit*, requires additional audit procedures addressing the risk of fraud in an organization. Our responsibility is not to detect fraud, but to detect material misstatements in the financial statements caused by fraud, and our consideration of fraud is integrated into the overall audit process.

Types of fraud include intentional misstatements or omissions in financial reporting and misappropriation of assets. SAS 99 requires auditors to address:

- How and where the client's financial statements might be susceptible to material misstatement due to fraud and what conditions might be present to allow fraud to occur.
- How management could perpetrate and conceal fraud.
- How management or employees could misappropriate assets of the client.

In addition, SAS 99 requires auditors to make inquiry of:

- Management regarding their awareness and understanding of fraud, fraud risks, and steps taken to mitigate risks.
- Others within the entity, including council members, non-financial executives, administrators, and non-management personnel not directly involved in the financial reporting process, regarding the existence of suspicion of fraud and the individual's views about the risks of fraud within the entity.

Risk areas identified through inquiries and based on industry knowledge will significantly affect the audit process. With your help, the implementation of these new standards will certainly lead to a greater comfort in the controls you have designed and implemented. It may even create greater efficiency in the accounting process as a byproduct of the process.

Creating A Culture Of Honesty And High Ethics

It is the City's responsibility to establish core values and to effectively communicate the values to employees in order to create a culture with high ethical standards. The AICPA has included the following as key components necessary for the creation of such a culture.

Setting The Tone At The Top

Management, through the modeling of high ethics themselves and effectively communicating expectations to employees, is responsible for leading the effort to create the appropriate culture within the City.

Creating A Positive Workplace Environment

The creation of a positive workplace environment, where employees feel they are treated fairly, has proven to reduce the risk of fraud. This type of environment could be created as follows:

Allowing employees to provide input related to the code of conduct.

- Enabling employees to internally seek advice concerning decisions that appear to have ethical implications.
- Establishment of a fair reward system.
- Implementation of team-focused decision making policies.

Hiring And Promoting Appropriate Employees

Policies must be effective in reducing the changes of hiring and promoting individuals with low ethical standards.

Training

Core values expressing an attitude of intolerance toward unethical behavior should be communicated immediately to new hires and should be recommunicated periodically to all employees.

Confirmation

Reinforcement of core values occurs if the employees are required to sign a code of conduct statement.

Discipline

Consequences of unethical behavior should be communicated upfront, and management response to unethical behavior should be consistent with the consequences communicated. Management's response demonstrates the level of commitment to the ethical standards and could deter future wrongdoing.

Evaluating Antifraud Processes and Controls

Perceived opportunity to successfully commit fraud increases the risk that fraud will occur. The following can help in reducing the opportunity for fraud.

Identifying And Measuring Fraud Risks

The City's vulnerability to fraudulent activity (including Fraudulent financial reporting, misappropriation of assets, bribery and other illegal acts) should be assessed.

Implementing And Monitoring Appropriate Internal Controls

Internal processes can be modified to reduce fraud risk. Examples of such process modifications are as follows:

- Additional review of the procurement process
- Segregation of duties
- Adequate scrutiny of interim financial reports and budget reports by management

Developing An Appropriate Oversight Process

Whether it is external or internal oversight, appropriate oversight should be identified and established.

City Council

The City Council is ultimately responsible for ensuring management is doing an effective job of monitoring fraud risk and implementing procedures to mitigate fraud risk. Therefore, the Council should be evaluating management's assessments and controls.

Independent Auditors

Independent auditors can provide an assessment of the City's process for identifying, assessing and responding to the risk of fraud.

Certified Fraud Examiners

Certified Fraud Examiners can provide additional insight into the risk assessment.

Other Information

The following Web sites provide additional guidance on fraud and the implementation of anti-fraud programs and controls:

American Institute of Certified Public Accountants	www.aicpa.org
Association of Certified Fraud Examiners	www.cfenet.com
Financial Executives International	www.fei.org
Information Systems Audit and Control Association	www.isaca.org
The Institute of Internal Auditors	www.theiia.org
Institute of Management Accounts	www.imanet.org
National Association of Corporate Directors	www.nacdonline.org
Society for Human Resource Management	www.shrm.org

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December 22, 2004

Honorable Mayor and Members
Of The City Council
City of Morenci
Morenci, Michigan 49256

We have examined the combined financial statements of the City of Morenci, Michigan and the combining, individual fund and account group financial statements of the City as of and for the year ended June 30, 2004 and have issued our report thereon dated December 22, 2004. As a part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 2004, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

1. GASB 34 - INFRASTRUCTURE

It is imperative that the City continue to maintain the fixed assets structure created to comply with the change in accounting methods.

2. **INVESTMENTS**

It was noted that the Fire Department has investments that are possibly not in compliance with the investment policy of the City and P.A. 55 of 1982, as amended. Even though these amounts are immaterial, compliance needs to be maintained.

3. **DEFICIT FUND BALANCE – GENERAL FUND**

The City needs to come up with a deficit reduction plan applicable to the fund accounting and budget of the general fund.

4. **FIRE DEPARTMENT BENEFIT FUND**

The Fire Department Benefit Fund needs to be maintained in the City's accounting records. This can be accomplished by either separate accounting records being maintained and reviewed periodically by the City, or having the City post and include in their accounting system each month.

Controls and procedures must be maintained, providing accounting, approval of payments and controls over fund raising activities to be compliance with the City's exempt status, etc.

Donations should not be made to other non-profit entities out of these donated and fund raising activities.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated December 22, 2004 on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,



Philip R. Rubley, CPA